

### CPI inflation surged to 7.3 percent in September 2020

Month	Weight	Sep-19	Jun-20	Jul-20	Aug-20	Sep-20
General Index	100	4.0	6.2	6.7	6.7	7.3
Food and beverages	45.86	4.7	7.9	8.5	8.3	9.7
Pan, tobacco and intoxicants	2.38	4.6	11.3	10.5	11.2	10.8
Clothing & footwear	6.53	1.0	2.7	2.8	2.8	3.0
Housing	10.07	4.8	3.6	3.3	3.1	2.8
Fuel & light	6.84	-2.2	0.5	2.7	3.2	2.9
Miscellaneous	28.32	4.5	6.1	6.8	7.0	6.9

- ❖ The Central Statistics Office released the Consumer Price Index (CPI) based inflation rate for the month of September 2020.
- ❖ During the month of September 2020, NSO collected prices from 98.0 percent villages and 97.8 percent urban markets.
- ❖ As per the latest data, CPI based inflation was reported at an eight-month high of 7.3 percent in September 2020 on back of persistently elevated food and beverages, pan, tobacco and intoxicants and miscellaneous segment prices. Clothing & footwear segment also recorded a marginal uptick in prices.
- ❖ Retail based inflation rate in fuel & light as well as housing segments, on the other hand, moderated in September 2020.
- ❖ Inflationary pressures in the food segment continue unabated. CPI food index reported a five-month high inflation rate of 10.7 percent in September 2020. Five out of nine major sub-segments in the CPI food index, accounting for nearly 47 percent of the food index, reported double digit inflation during the month.
- ❖ Major protein items such as eggs, fish and meat recorded an inflation rate of 17.4 percent, while pulses and products recorded 14.7 percent inflation in September 2020. Inflation in milk and products noted some moderation during the month.

#### CPI – Key Sub-segment of Food (% change Y-o-Y)

Month	Food	Cereals and products	Egg, fish and meat	Milk and products	Oils and fats	Fruits	Vegetables	Pulses and products	Sugar and condiments	Spices
Weight	39.06	9.67	4.04	6.61	3.56	2.89	6.04	2.38	1.36	2.50
Sep-19	5.1	1.7	9.6	1.8	1.2	0.8	15.5	8.4	-0.4	3.3
May-20	9.2	7.3	15.3	8.8	11.9	2.0	5.5	21.1	6.0	12.5
Jun-20	8.7	7.9	18.1	7.0	11.5	0.3	4.0	17.6	2.9	13.4
Jul-20	9.3	6.9	16.4	6.5	12.2	0.1	11.1	15.7	3.6	12.9
Aug-20	9.1	5.9	15.9	6.2	12.5	1.0	11.5	14.4	3.9	12.4
Sep-20	10.7	4.7	17.4	5.6	13.4	3.2	20.7	14.7	2.5	11.7

Prices of vegetables noticed the steepest increase in the month of September 2020. Prices surged by 20.7 percent y-o-y which is the highest since the economy entered the unlock phase in June 2020. Sharp increase in prices of staples- led by potatoes (102 percent) and tomatoes (54.6 percent) were mainly responsible for the surge in inflation levels. Price of garlic also noticed a sharp increase (to the tune of 15.2 percent) in the month of September 2020. According to reports, the new potatoes crop generally arrives in the market by mid-November, however given relatively high temperature in months of August-September especially in Punjab, about 50 per cent of the advance varieties sown in the last week of August either did not germinate or have been perished. Also, the greater demand of potato due to forthcoming Navratri festival has pushed up the prices. Besides tomato prices have been sky-rocketing due to incessant rain in some Southern states –which are also major tomato producing states. Other food products such as oils & fats (13.4 percent) and spices (11.7 percent) also contributed to an increase in overall food price index during the month.

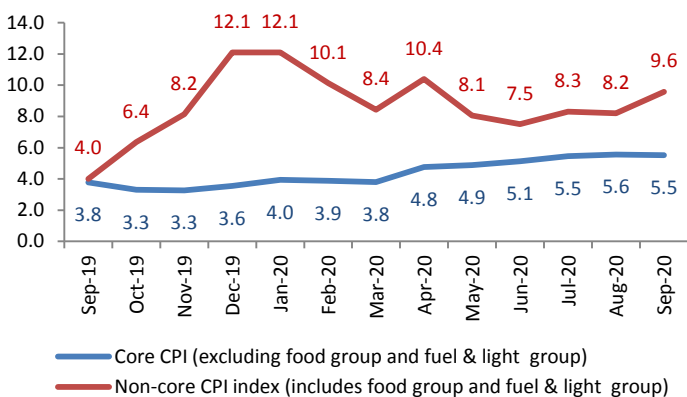
Pan, tobacco & intoxicants continued to record double digit increase in prices in the month of September as well, albeit the extent of increase was at a slightly slower pace when compared to the previous month. Miscellaneous segment recorded 6.9 percent inflation in September. Within the segment, which largely comprises to various services, personal care & effects (12.3 percent) and transport & communication (11.5 percent) segments recorded double digit inflation levels during the month. Dearer essential services like these during the current pandemic times on the back of severe supply chain disruptions and extended social distancing norms has caused core inflation to remain high and beyond RBI's comfort zone since June 2020. Other segments including health (4.9 percent) and education (2.2 percent) also edged up a tad in September 2020- vis-à-vis 4.7 percent and 1.6 percent respectively in August 2020.

Source: MoSPI, CMIE

# Economy Fact Sheet – Consumer Price Index

## October 2020

Consumer Price Index: Growth: Y-o-y in %



Households' Inflation Expectations Survey, October 2020

Month/Survey Round	Current perception of inflation rate	Inflation expectations three months ahead	Inflation expectations one year ahead
	(in %)	(in %)	(in %)
Sep-19	7.1	8.0	8.1
Mar-20	7.6	8.5	9.0
May-20	9.3	10.4	10.2
Jul-20	9.9	10.5	10.3
Sep-20	9.8	10.4	10.3

Households' Inflation Expectations Survey, October 2020: Percent of respondents expecting increase in prices

Month/Survey Round	Respondents expecting prices to increase in the three-month ahead period to			Respondents expecting prices to increase in the one-year ahead period to		
	More than current rate	Similar to current rate	Less than current rate	More than current rate	Similar to current rate	Less than current rate
Sep-19	49.0	25.1	5.2	57.3	25.1	4.6
Mar-20	52.5	25.6	5.2	60.7	24.8	3.7
May-20	56.0	23.5	5.8	57.1	23.8	4.7
Jul-20	52.2	26.0	5.3	55.9	24.3	4.4
Sep-20	53.9	22.5	5.2	59.6	20.4	4.7

Results of RBI's latest inflation expectations survey of households hold some optimism with the median perception of inflation rate in current, three month ahead and one year ahead categories remaining either constant or witnessing slight moderation. This is the first time when inflation expectations have eased/ remained constant since the country was struck by the pandemic and subsequent lockdown in March 2020.

However, the percent of respondents expecting prices to increase more than the current rate in the three month ahead period as well as one year ahead period noted an increase. In the latest survey round, nearly 54 percent of the respondents cited prices to rise more than the current rate over the three month horizon, as compared to around 52 percent stating likewise in the previous round. For the one year ahead period, nearly 60 percent respondents cited prices to increase more than the current rate as compared to about 56 percent stating the same in the previous survey round.

### Comments

The RBI in its latest Monetary Policy Statement expected headline inflation to remain elevated at 6.8 per cent in Q2 2020-21. With September data coming in, the actual average inflation rate of 6.9 percent during the quarter has overshoot RBI's estimate. Going forward, the Central Bank's guidance indicates a moderation in price levels at around 5.4-4.5 percent in the second half of the fiscal. In fact, initial estimates for Q1 2021-22 have been projected to be much lower at 4.3 percent. Expectations of good kharif output, softer international crude oil prices, weak demand (thereby weak pricing power of firms) are the upsides to the outlook.

While the headline inflation has been on the rise, majorly on the back of higher food prices, in the past few months, core inflation has also edged up especially due to surge in transport & logistics and personal care services. Inflation is likely to remain at high levels till the time supply chains remain constrained. While the government has taken measures focused on easing supply chain bottlenecks in the successive guidelines on unlocking the economy, the return to pre-covid times is likely to take some more time. Higher infection rates and persistent uncertainty still remain a cause of concern.

Nonetheless, the latest inflation print has further limited the space for a cut in the repo rate by the Reserve Bank over the near term. We expect the Central Bank to remain in the wait and watch mode. However, some of the recent announcements made in the Monetary Policy Statement have been very positive and should help lower the interest rates.

Source: RBI, MoSPI, CMIE